



U.S. Department of Housing and Urban Development
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Regional Inspector General for Audit

MEMORANDUM NO:
2003-PH-1802

September 4, 2003

MEMORANDUM FOR: George H. Rodriguez, Director, West Virginia Field Office, 3CMA

FROM: Daniel G. Temme, Regional Inspector General for Audit, Mid-Atlantic, 3AGA

SUBJECT: Shawnee Hills, Incorporated
Charleston, West Virginia

INTRODUCTION

In response to a complaint, we completed a limited review of Shawnee Hills, Incorporated, a former management agent of HUD-assisted multifamily properties. Shawnee Hills, Incorporated filed for protection under Federal bankruptcy laws in May 2002. Subsequently, questions surfaced regarding whether Shawnee Hills, Incorporated properly used Federal funds. Specifically, our objective was to determine whether Shawnee Hills, Incorporated improperly used project operating income and Reserve for Replacement funds to sustain its own corporate operations. We were also asked to perform a formal accounting of these funds and determine if HUD's interests were protected.

We found that, for the most part, Shawnee Hills, Incorporated's financial records were not auditable and therefore we could not perform a detailed review or accounting of the funds. Nevertheless, our review did identify evidence showing that Shawnee Hills, Incorporated improperly used \$9,000 Reserve for Replacement funds just prior to filing for protection under Federal bankruptcy laws.

METHODOLOGY AND SCOPE

In conducting our audit we:

- Interviewed responsible staff from the Multifamily Housing Program Center in HUD's West Virginia Field Office, the Assistant U.S. Attorney, and the U.S. Bankruptcy Trustee.

- Reviewed HUD’s project files, the Regulatory Agreement, the last audited financial statement as it pertained to the Reserve for Replacement account, and Shawnee Hills, Incorporated’s bank statements for the period ending May 2002.
- Visited the primary location where applicable financial records were stored.

We performed audit work at various times from May 2003 through July 2003.

BACKGROUND

Shawnee Hills, Incorporated was a private not-for-profit company that operated comprehensive programs serving persons who were mentally ill, chemically dependent, developmentally disabled, or who otherwise required related behavioral health services. The company managed the Federally assisted Concord House, Incorporated and Boydie Morton Manor until it filed for protection under Federal bankruptcy laws in May 2002. HUD’s Program staff reviewed the most current financial statements dating back to 1997 for Concord House and Boydie Morton Manor and believed funds may have been withdrawn from the Reserve for Replacement account in violation of the Regulatory Agreement. The Reserve for Replacement account generally should be used to help defray the costs of replacing a project’s capital items. The applicable Regulatory Agreement states that disbursements from the Reserve for Replacement account require prior written consent from HUD. The last audited financial statement dated June 1997 for Shawnee Hills, Incorporated showed a balance of \$20,467 for Concord House and \$117,960 for Boydie Morton Manor in the Reserve for Replacement account. Additionally, loan payoff statements provided by HUD’s West Virginia Field Office showed that Concord House owed HUD \$1.26 million as of February 2003 and Boydie Morton Manor owed HUD \$689,009 as of July 2003.

RESULTS OF REVIEW

Our review confirmed that Shawnee Hill, Incorporated did in fact withdraw funds from the Reserve for Replacement account in violation of the Regulatory Agreement. However, due to the fact that the company had filed for bankruptcy and that its financial records were not auditable, we could not adequately perform a detailed review in order to perform a formal accounting of these funds.

The U.S. Bankruptcy Trustee showed us the primary location where the applicable financial records were stored. The property had been sold to the West Virginia State Police and contained numerous boxes containing miscellaneous unorganized records. For example, patient records, various handbooks, internal documents and possibly some financial records had been mixed together in no particular order. The U.S. Bankruptcy Trustee further told us there was another location where records were stored in similar fashion but that he believed the financial records probably had all been destroyed.

Despite the lack of detailed financial records the U.S. Bankruptcy Trustee was able to provide us with bank statements from May 2002. These records showed a wire transfer for \$9,000 out of

the account designated in the bankruptcy schedules as the HUD Reserve for Replacement account the day before Shawnee Hills, Incorporated filed for bankruptcy. The \$9,000 was transferred into the account used for payroll and general disbursements. Since HUD did not authorize the disbursement of funds from the account it was apparent that Shawnee Hills, Incorporated violated the Regulatory Agreement.

RECOMMENDATION

1A. Initiate action, as appropriate, to prohibit Shawnee Hills, Incorporated and its Officers from being awarded future contracts with the Federal government.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact John Buck, Assistant Regional Inspector General for Audit, at (215) 656-3401, Ext. 3486.